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C O N F I D E N T I A L SECTION 01 OF 02 PRAGUE 000572

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SUBJECT: THE "NEW" CZECH GOVERNMENT: OLD WINE IN AN OLD BOTTLE?

REF: PRAGUE 547

Classified By: Deputy Political Counselor Mark Canning for reasons 1.4(b) and (d)

1. (SBU) SUMMARY. The three parties in the Czech ruling coalition have agreed to end a three-month government crisis and renew their cooperation. If the current proposal is accepted this weekend by the central committee of the main coalition party, the CSSD, PM Gross would resign next week and be replaced by the current Minister for Regional Development and CSSD Vice Chair, Jiri Paroubek. This new government would retain the one-seat majority in Parliament and be expected to serve until elections next summer. Leaders have dropped any reference to non-political or pro-EU governments: the current proposal is for a political government with policy priorities and members nearly identical to those of the Gross government. PM Svoboda and DefMin Kuehn1 would stay in their position, although DPM Jahn may not. With tensions still high between and within the coalition parties, a vote of confidence in a new government is not assured. END SUMMARY

2. (SBU) If this deal is approved, it will mean continuity in the areas most important to the US. Head of the CSSD Parliamentary Club, Michal Kraus told the DCM Apr 20 that the new government's policies will be exactly like those of the old government. CSSD and Gross have, during the latter stages of the crisis, been calling for a Pro-European government that would have as its first priority a campaign in favor of the EU constitution. Kraus said this idea has been dropped. Kraus thought the Czechs, who are the only EU member yet to fix a method for voting on the constitution, would probably have a referendum on the issue, though he couldn't say whether it would be before, or part of the elections next June. According to Kraus, most of the issues this government is likely to deal with, if it survives the remaining 14 months before the next general election, will be domestic one, including budget, taxes, and housing.

3. (C) The ministries of Defense and Foreign Affairs will remain under current ministers Karel Kuehn1 (Freedom Union) and Cyril Svoboda (Christian Democrats). Svoboda, who has confirmed his intention to stay, is very pro-American. For example, during discussions on the arms embargo on China at the recent EU foreign ministers Gymnich, Svoboda argued that in light of the recently started political dialogue with the US, it only made sense to wait and see how the talks go before revisiting the issue. One area of concern is the possible departure of Deputy Prime Minister Martin Jahn, who had been pushing reform of the bankruptcy law and other pro-business measures. Jahn's participation in the new government was not clear as of Apr 20.

4. (SBU) The latest agreement reflects a significant amount of chaos within CSSD. Throughout the crisis, CSSD and Gross have made inconsistent statements, or made demands and then dropped them. For example, two weeks ago Paroubek said, "I want to say openly that the voters gave us a choice of two mandates, either a majority government with the right of center opposition party the ODS, or a minority government supported by the communists. Any recreation of the 101 seat coalition would be an attempt to revise the mandate of the voters." Now Paroubek is planning to lead that recreated 101-seat coalition. Another example: for nearly two weeks Gross has been proposing a semitechnical government that contained no party leaders. The proposed government will now be led by CSSD Vice Chair Paroubek, and contain CSSD Vice Chair Sobotka as Finance Minister, Freedom Union Chair Nemec as Justice Minister, and Vice Chair Kuehn1 at Defense. CSSD has also been saying all along that they would not accept anyone who broke up the old coalition, referring to the Christian Democratic ministers Ambrozek, Svoboda, and Simonovsky, who had resigned. Yet all three would keep their places in the proposed new government.

5. (SBU) The agreement is seen as a victory for the Christian Democrats. From the start of this crisis in January, the goal of Christian Democratic leader Miroslav Kalousek has been to get rid of Gross, and that is the only significant change that this new government would bring. The only concession the Christian Democrats appear to have made in order to close the latest deal is that its three ministers will give up their positions as party vice chairs.

16. (SBU) The agreement is also good news for Freedom Union. The party is only polling two percent, well below the five percent threshold for entry into parliament. Early elections would have meant an end to the party's role in government. Now it looks as though they'll not only keep their old posts, both government and party, but they might pick up extra responsibilities if Justice Minister Nemec inherits the legislative council post of Minister Without Portfolio Bures, who will not be replaced.

17. (SBU) PM Gross informed President Klaus about the new agreement by telephone on Apr 19. Klaus has not yet issued a public statement on the deal, perhaps a reaction to the early public endorsement he gave to the deal reached last week that subsequently collapsed. But the latest deal meets the minimum requirements Klaus had earlier established, namely a coalition with a majority in Parliament. Once each of the three coalition parties has formally approved the deal -- with the key being the CSSD on Apr 23 -- Gross will formally submit the resignation of the cabinet to the President. Klaus had previously stated that he would turn first to the CSSD to lead a new government. The Paroubek government -- which would be the third CSSD-led, three-party coalition government since elections in 2002 -- would require a vote of confidence. Given the slim majority and the acrimony of recent months, there is no guarantee that this would pass.

18. (U) Paroubek (53) has a business background. He was never a member of the Communist Party. He became a CSSD member in 1990, and since 1991 was involved in Prague city government. From 1998-2004 he was Vice Mayor of Prague in charge of finances, until becoming Minister of Housing and Regional Development when Gross took office last August. He was elected CSSD Vice Chairman at the party congress in March.

19. (C) As the man in charge of finances for many years in a city that tolerates corruption, Paroubek has a reputation as a deal-maker, not a man of principle. In the early 90s he was in the CSSD right wing. Last week he said publicly that he could live with a minority government supported by the communists. He is very close to Gross, who will retain his position as CSSD Chairman. Kraus told the Embassy that Paroubek was chosen over Finance Minister Sobotka because Paroubek was the kind of fighter who could lead the party to the next elections.

110. (C) COMMENT. Overall, this latest deal represents a good outcome for the US, as some of the most important ministers would keep their positions, although Jahn's departure would be a loss. But the fact that the crisis has gone on for so long reflects some of the problems in Czech politics: weak ties between constituents and parties, journalists who print unsubstantiated accounts, along with a tendency to fight political battles in public, rather than behind closed doors, and the general unsettled nature of the political spectrum. Public disgust has been growing as the crisis has continued, and the current solution -- essentially the status quo -- will leave many scratching their heads. Kraus told the Embassy that three months of political tension have left relations between the three parties "frozen, the worst in years." The fragile coalition, with just a single seat majority in parliament, is going to have to first win a vote of confidence, then pass difficult pieces of legislation, such as the 2006 budget. Assuming the latest deal gets over the immediate hurdle of winning CSSD approval, and the current crisis actually comes to an end, we certainly should not expect smooth sailing between now and next summer's election.

HILLAS